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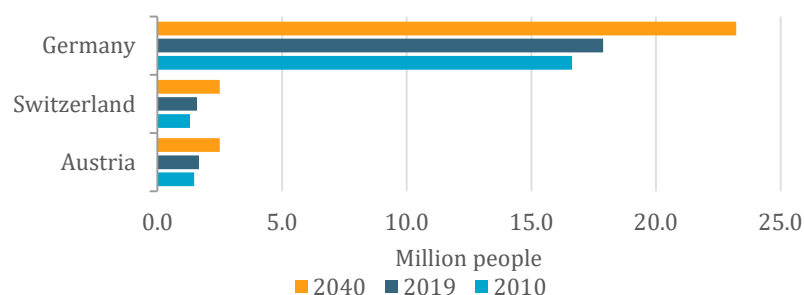
AGEING CONSUMERS AND DIGITAL FINANCE: A NEW MARKET IN THE DACH REGION AFTER CORONAVIRUS

August 2020

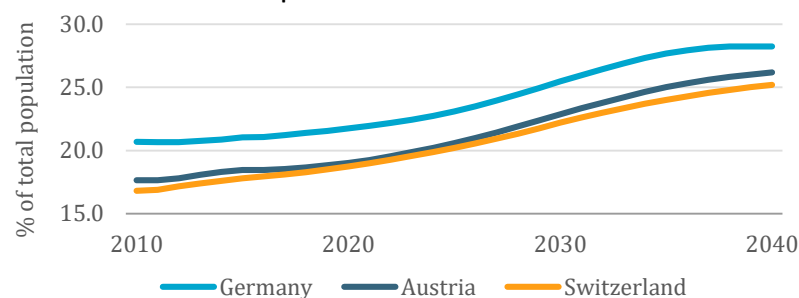
Ageing population will shape consumer demand in DACH

- With a combined population of 100 million people (19.9% of Western Europe total population) in 2019, Germany, Austria and Switzerland (DACH) represents the largest consumer market in Western Europe. Consumers in the three countries also enjoy high spending power, with consumer expenditure making a quarter of Western Europe's total in 2019. It is thus crucial for companies to understand the specific consumer landscape and trends in order to build successful business strategies in these markets.
- Population ageing is the most significant demographic change that drives the consumer market in DACH. By 2040, more than a quarter of the population in all three countries will be aged 65 and over, compared to a fifth in 2019. This will shape demand and consumption patterns, putting companies under pressure to adapt and provide relevant products and services.
- Despite having a strong cash culture, the COVID-19 pandemic has accelerated the digital transition in the finance and payment space in DACH. As this trend is expected to stick after the crisis, it is important for companies to consider the adaptation of older consumers in their digitalisation strategy.

Total Population Aged 65+: 2010/2019/2040



Population Aged 65+ as a Proportion to Total Population: 2010-2040



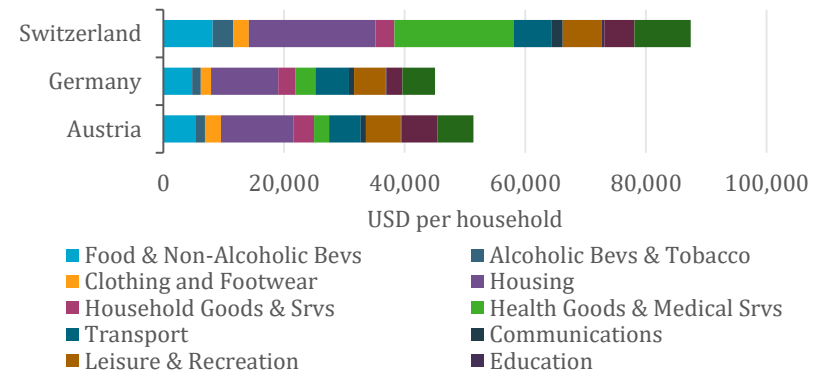
Source: Euromonitor International from national statistics/UN

Note: Data from 2020 are forecasts.

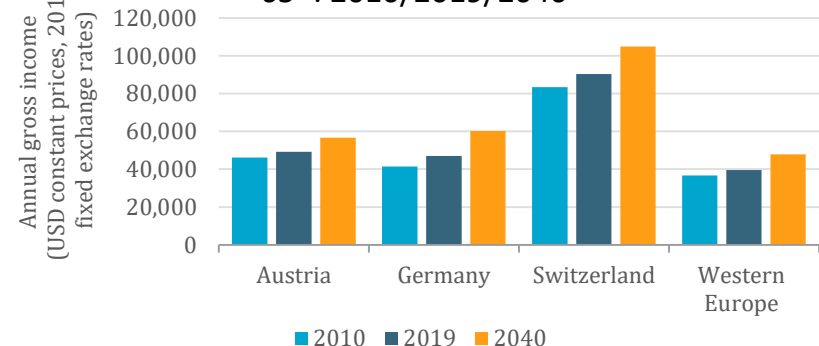
Older consumers have economic power and active lifestyles

- Overall, consumers aged 65 and over in Germany, Austria and Switzerland enjoy relatively high income levels compared to the Western Europe regional average. Resilient economies and strong pension and social protection systems have helped to ensure stable income sources for older consumers in the countries.
- Older households in DACH are also big spenders, with consumption gearing towards discretionary items such as transport (which includes travel services), leisure, hotels and catering, and health. This reflects the active lifestyles in their old age, as well as their priority of health and experiences. In 2019, the over-65 age cohort accounted for 21% of all German travellers. As such, older adults are a key consumer segment that businesses in DACH countries, including those in the finance and payment segments, should not ignore.
- Nevertheless, as all DACH economies enter a deep recession in 2020 due to COVID-19, the average annual gross incomes of the population aged 65+ are expected to contract accordingly in the year, meaning businesses should be prepared for more cautious spending behaviour from them at least in the short term.

Spending by Category of Households Headed by People Aged 60+: 2019



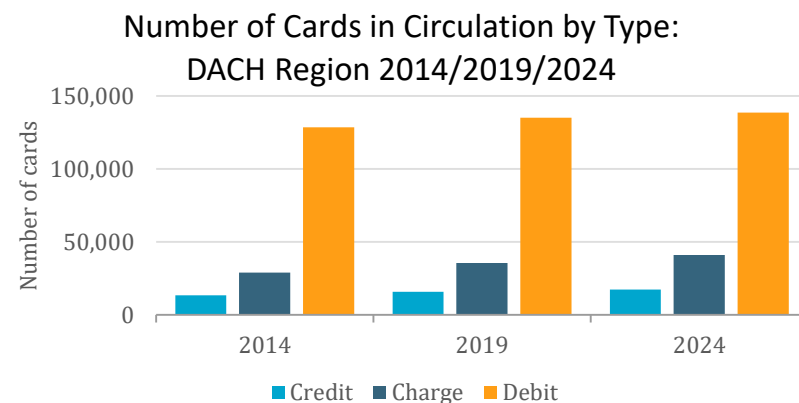
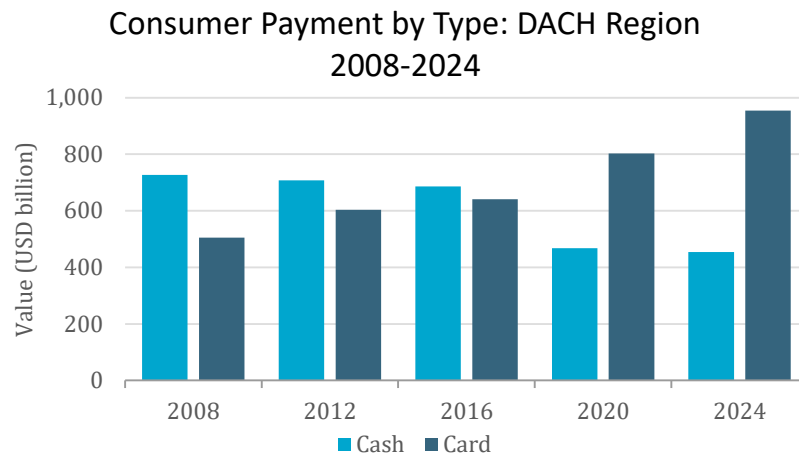
Average Annual Income of Population Aged 65+: 2010/2019/2040



Source: Euromonitor International from national statistics/UN
Note: Data from 2020 are forecasts.

The payments landscape moves gradually away from cash

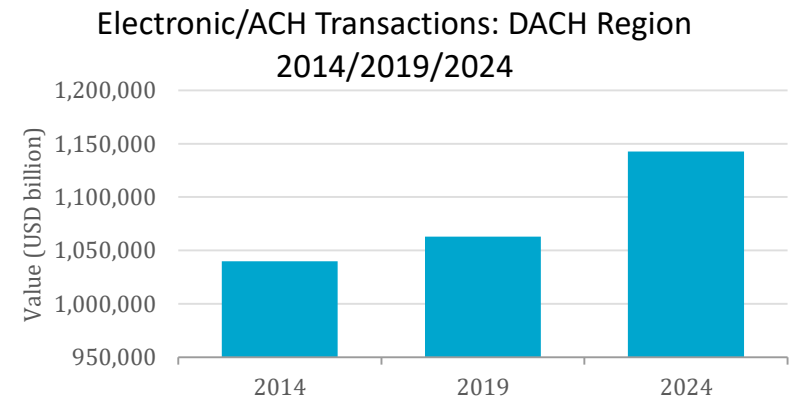
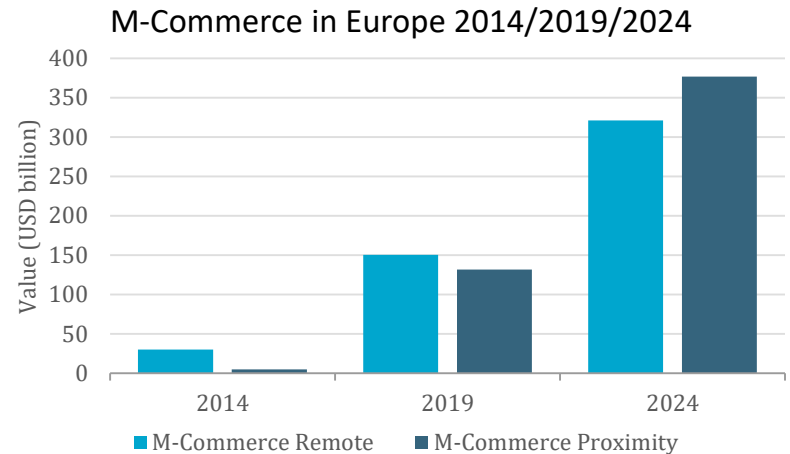
- Traditionally, the payments landscape in the DACH region has been cash-dominant. Security, privacy and control over spending supported its continued popularity in the retail landscape while many other Western European countries such as the UK and Sweden increasingly shifted towards card payments.
- In recent years, however, the payments landscape in the region has seen swift changes. This was fuelled by the expansion of contactless payment infrastructure that quickly facilitated an unprecedented shift towards card payments, especially debit cards, and enabled the emergence of mobile proximity payments.
- Moreover, the trend away from cash is also driven by the ongoing growth of e-commerce and increasingly mobile commerce in the DACH region, both fuelling card and electronic transactions.
- The COVID-19 pandemic has further accelerated these trends as merchants recommend card use and increase acceptance to avoid the spread of the virus. Thereby, many consumers were introduced to contactless and mobile payments, leading to the adoption of new payment behaviour which is expected to outlast the pandemic.



Source: Euromonitor International.
Note: Data from 2020-2024 are forecasts.

Digital mobile banking services are on the rise

- In recent years, digitalisation has also had a transformative impact on the banking landscape in the DACH region. Paired with new EU regulation (PSD2) focused on making banking services more innovative, digital banks with a mobile-first approach were able to flourish.
- In view of growing expectations in terms of digital customer experience, digital banks provide consumers with centralised control over their finances and allow for the integration of additional personalised services that provide added value beyond the traditional banking environment.
- Due to the COVID-19 pandemic, a large number of traditional banks temporarily closed their branches to reduce the spread of the virus. This facilitated the already accelerating adoption of digital mobile banking services, particularly among young metropolitan consumers.
- At the same time, due to the pandemic and regulatory pressure from PSD2 that has increased competition, traditional banks such as Deutsche Bank have invested significantly in digital banking. Meanwhile, the number of physical branches steadily continues to drop as a result of declining demand and cost-cutting measures.



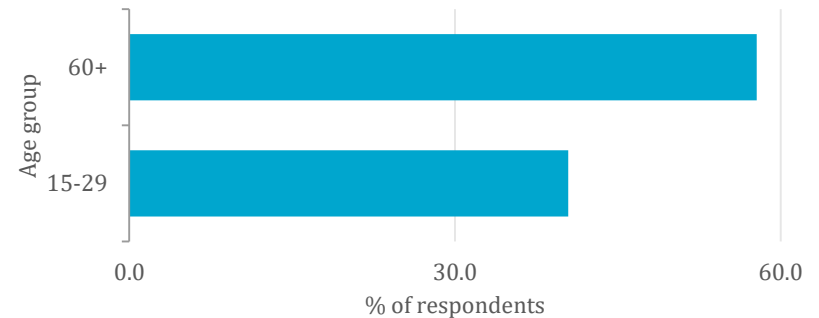
Source: Euromonitor International.
Note: Data from 2024 are forecasts.

Widening age gap in digital and financial literacy

- The accelerating digital transformation of the payments and banking landscapes shows that financial inclusion is increasingly driven by technological innovation. Millennials and digital natives in the DACH region show a growing preference for using digital wallets and banking applications on their smartphone rather than carrying physical wallets with them.
- This digital transformation of financial services, however, also creates barriers for the growing share of older consumers in the region, as the majority of them continues to prefer cash payments and face-to-face service in bank branches. Also, this consumer segment often has lower usage of online banking, smartphones and other digital devices, partly because older consumers are often less comfortable with technology compared to younger ones.
- With relatively lower levels of financial and digital literacy, older consumers appear to require traditional ways of managing financial services. Yet, the emergence of digital banking and payment innovations and the continuous closures of bank branches leave older consumers increasingly at risk of being left out of the market.

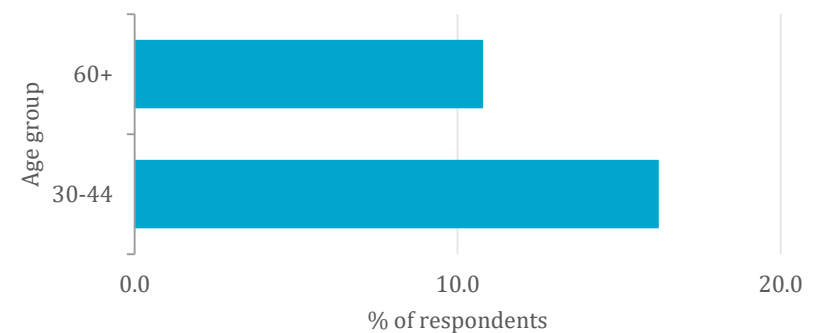
Preferred Form of Customer Service by Age Group in Germany

(% of German consumers who preferred talking to a human to address customer service questions)



Access to In-Home Virtual Assistance

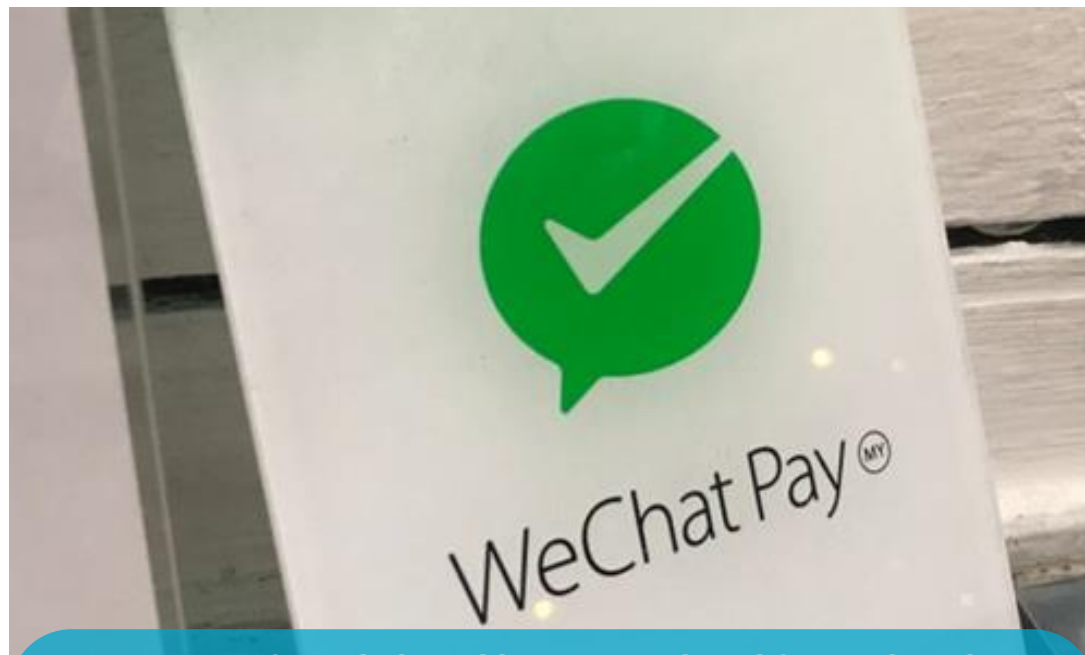
(% of German consumers who own or currently have regular and easy access to in-home virtual assistants for personal use)



Source: Euromonitor International Lifestyles Survey 2020

Resulting opportunity: Opening up of a new market

- While digitalisation may create access barriers for older consumers to financial services, technology can also offer solutions to include the older generation, having their specific needs in mind:
 - Given the differences in terms of economic, social and health status of older consumers, there is a need for a high level of personalisation that takes into account the customer's age and capabilities;
 - Technology can play an instrumental role in realising these new market opportunities in countries with an ageing consumer base. Business can leverage technology to innovate and tailor their products and services in order to address the challenges associated with ageing and meet the needs of older consumers.



Success stories for including older users in digital finance have been seen in some markets, which can provide examples for upcoming developments in the DACH region. For example, the Chinese super-app WeChat including its payment function is already widely embraced by older consumers in China given its convenience. In 2019, WeChat added a feature to allow users to issue virtual cards to their older relatives, enabling older people who do not have bank accounts to conduct electronic payments.

Emerging innovations show potential among older consumers

COVID-19 enhances digital experience

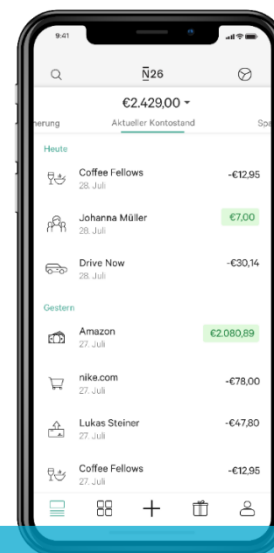
- The outbreak of COVID-19 led to an accelerating influence, use and demand of technology among consumers throughout the DACH region. Growing experience and higher acceptance among older consumers resulting from this period can potentially pave the way for a surge of “age tech” in the years ahead, technology solutions that address common issues faced by older consumers, including the need for financial inclusion.

Age-friendly technologies

- Age tech relating to payments or fintech products focused on the elderly constitutes a market that is still in its infancy as most innovations focus on younger generations. Yet, in order to ensure financial inclusion for older people who desire to remain in their own homes but may suffer from mobility issues or other physical impairments, emerging tech innovations can help older consumers to continue to manage their finances independently. Technologies that have most potential are:
 - Voice-activated payment technology
 - Mobile banking applications
 - Products in the context of Internet of Things

Mobile banking applications

- Having started only a few years ago, mobile banks have emerged strongly to become a symbol of the rapid changes taking place in the banking landscape. Though the service is so far mainly used by younger consumers who are experienced in the use of mobile apps and who look for a level of convenience and flexibility that traditional bank accounts are not able to offer, mobile banking applications do provide features that can be appealing to older consumers.
- Mobile banking accounts are affordable (mainly free of charge). The opening is often done within minutes through a video authentication process. In addition, mobile banks give customers a centralised control over their finance and show real-time statistics of expenditures, all without having to visit a bank branch.
- Their key advantages, simplicity and convenience, have the potential to also create growing demand among older consumers who have limited access to bank branches (partly due to branch closures) and are not familiar with online banking but would consider the use of tablets. Businesses in the finance and payment sector thus should focus on the low-effort digital experience when marketing their mobile banks app to older people.



The German N26 mobile banking app is one of the examples for simplicity and convenience, that can be appealing for older consumers:

- Accounts can be opened quickly and easy to use;
- It obviates the need for physical branch visit;
- It offers a centralised control over finances;
- Customisable security settings.

Voice-activated payment technology

- Virtual digital assistants by leading technology companies such as Apple's Siri, Amazon's Alexa and Google Home have already registered significant consumer interest in recent years. These products use artificial intelligence (AI) to recognise and respond to voice commands. This technology provides key advantages that can also support financial inclusion for older consumers when used in the context of payments.
- By using voice commands and speech, where cognitive decline appears to have less impact, this technology allows older consumers to be reminded when a bill is due, to arrange payments and to check their balance. Thereby consumers, especially those with mobility issues and limited digital literacy, remain in control of their finances.
- Moreover, authentication via voice also takes away the burden of having to remember PINs, passwords or security questions for older consumers who suffer from memory problems while AI tools can identify patterns based on which unusual requests or actions can be highlighted and corrected if necessary in case of misunderstandings.



Virtual digital assistants such as Siri, Alexa and Google Home can lay the foundation for:

- Technology-driven financial solution for the older old;
- Product variations and enhancements, including by other companies, tailored specifically towards the needs and expectations of older consumers.

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Key takeaways for business

Older consumers represent a large and growing segment in DACH countries, while their relatively high spending power and active lifestyles offer great potential for consumer businesses. In sectors where older consumers remain relatively underserved such as digital finance and payment, the opportunity is growing, and businesses targeting the “older old” can gain first-mover advantages.

The rapidly advancing digital transformation of the payments and banking landscapes in DACH countries provides innovative solutions that reduce the relevance of traditional brick-and-mortar banks and the need for cash payments. While tech-savvy generations show growing interest, older consumers with low digital and financial literacy are increasingly at the risk of financial exclusion.

Nevertheless, emerging tech innovations in finance and payments also provide solutions to the specific challenges faced by the fast-growing older consumer group in the region. Easy-to-use banking applications and voice-activated technology show considerable potential that businesses can make use of in order to cater to the needs of older users and achieve long-term success in the digital age.



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